

Highway User Revenue Fund

**Fiscal Year 2007
Year- End Report**

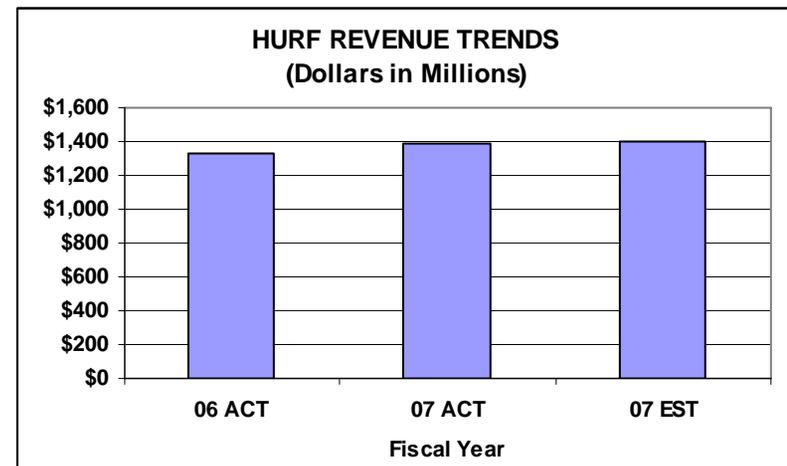


**Arizona Department of Transportation
Financial Management Services
Office of Financial Planning
July 2007**

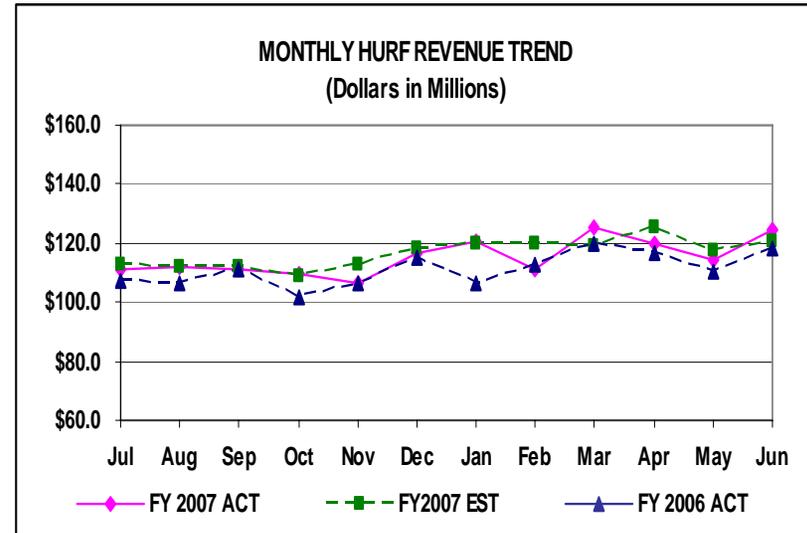
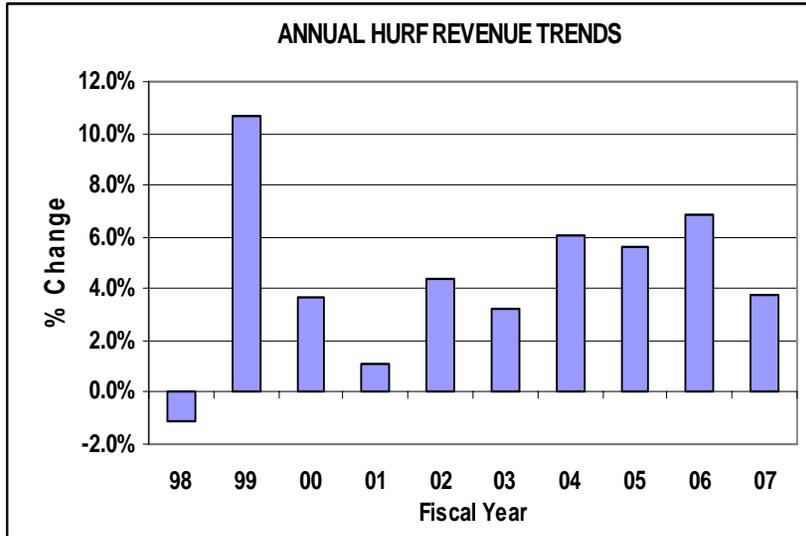
Highway User Revenue Fund Executive Summary

The State of Arizona taxes motor fuels and collects fees relating to the registration and operation of motor vehicles, including gasoline and use fuel taxes, motor carrier fees, motor vehicle registration fees, vehicle license taxes (VLT), and other miscellaneous fees. Revenues are deposited in the Arizona Highway User Revenue Fund (HURF) and are then distributed to the cities, towns and counties and to the State Highway Fund. These taxes and fees are a major source of revenue to the state for highway construction, improvements and other related expenditures.

FY 2007 HURF revenues amounted to \$1,382.5 million, an increase of 3.8 percent above FY 2006 but 1.2 percent below the estimate. All major revenue categories, except use fuel tax, posted year-over-year growth. The majority of the growth for the year was centered in the motor carrier fee and registration revenue categories. Continued higher fuel prices and lower consumer spending due to the housing market slowdown weakened the Arizona and national economies which lead to the lowest year-over-year growth since FY 2003.



Revenue Trend Analysis



HURF year-over-year growth averaged 5.0 percent over the last ten years. The economy in Arizona appears to have peaked in FY 2005 and FY 2006. FY 2007 saw HURF revenue growth slow to 3.8 percent as a result of the slowing Arizona and national economies. All main economic indicators from employment, population, personal income and Arizona real gross domestic product posted slower growth rates in FY 2007.

HURF collections in FY 2007 were 1.2 percent or \$16.3 million below the forecast. The monthly revenues tracked the monthly estimates consistently except in a few months due to timing differences with commercial registration fees.

Performance By Category

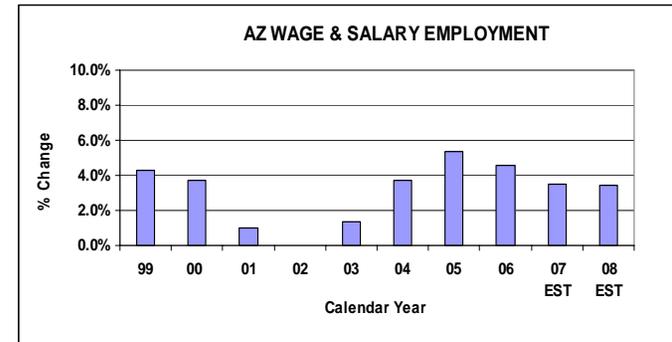
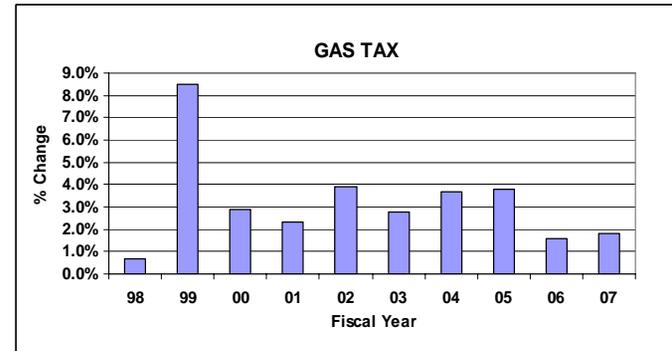
Gas Tax:

Gas tax revenue in FY 2007 totaled \$497.7 million, an increase of 1.8 percent over FY 2006, but 0.7 percent below the estimate. Although the year-over-year growth was slightly higher than recorded last year, the 1.8 percent growth still was approximately half of the ten-year average growth rate of 3.5 percent.

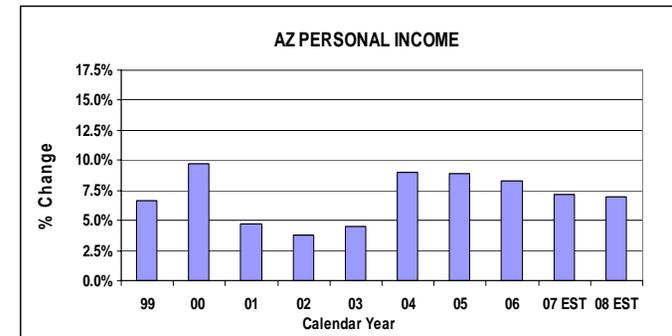
According to Arizona AAA weekly new releases, the average statewide gas price per gallon was the lowest on November 2 at \$2.21 while the highest was on May 24 at \$3.11. Based on distributed gasoline gallonage figures reported to the Arizona Department of Transportation, Motor Vehicle Division, it appears Arizona consumers drove less during the higher priced months and more during the lower priced months.

The June 2007 Arizona Blue Chip Forecast reported wage and salary employment growth decreased from 5.4 percent in CY 2005 to 4.6 percent in CY 2006. According to the Arizona Blue Chip economists panel, wage and salary employment growth in Arizona will continue to moderate over the next two years with the consensus panel estimates for CY 2007 and CY 2008 at 3.5 and 3.4 percent, respectively.

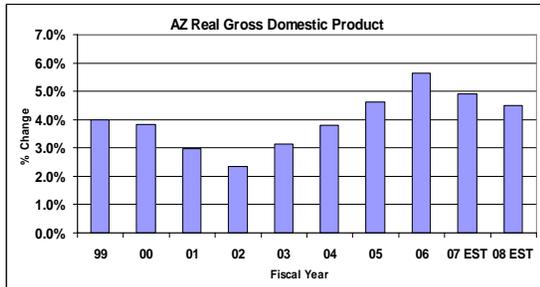
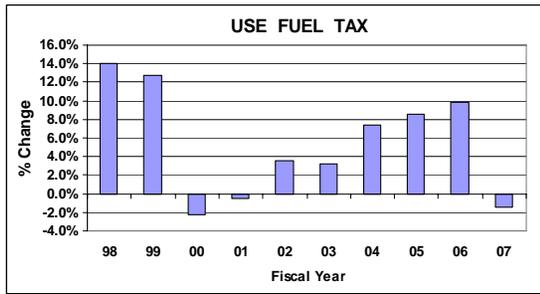
Arizona personal income also is expected to moderate over the next two years. The Arizona Blue Chip Forecast economists predict Arizona personal income growth in CY 2007 and CY 2008 at 7.2 and 7.0 percent, respectively.



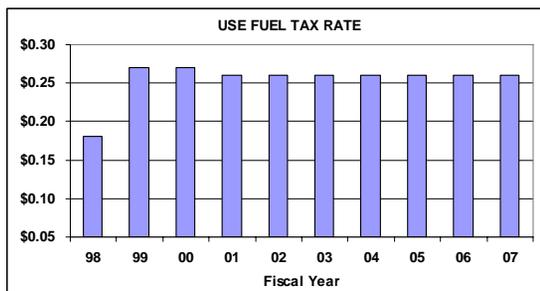
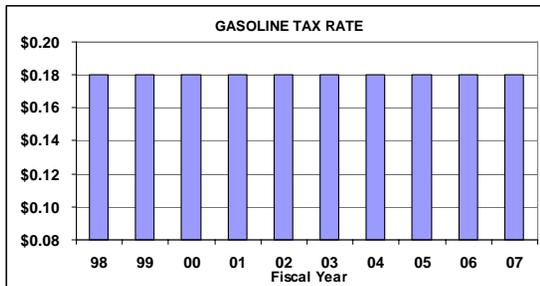
Source: Arizona Blue Chip Forecast, June 2007



Source: Arizona Blue Chip Forecast, June 2007



Source: Bureau of Economic Analysis June 2007. Estimates extrapolated from US GDP estimates from Global Insight 2nd Quarter 2007.



USE FUEL TAX:

Use fuel tax collections in FY 2007 totaled \$210.3 million, a decrease of 1.5 percent from FY 2006 and 8.8 percent below the estimate. In recent years, use tax revenues increased even with the sharp increase in use fuel (diesel) prices to around \$3.00 per gallon. FY 2007 was a different story with the first year-over-year decrease since FY 2001. Arizona and the nation experienced slower economic activity in FY 2007 due in part to the slowdown in the housing market which created a ripple affect through not only the housing sector, but also the general merchandise, furniture, motor vehicle sectors. In addition, the trucking industry has been aggressive in upgrading its fleet due to federal air quality requirements and to improve fuel efficiency to become more competitive. The improved fuel efficiency also may be pressuring use fuel tax collections.

A barometer for business activities in Arizona is the Arizona Real Gross Domestic Product. This economic activity indicator increased by 4.6 percent in FY 2005 and 5.6 percent in FY 2006. With the slowing Arizona and national economies, the Arizona Real Gross State Product growth is expected to slow to 4.9 percent in FY 2007 and 4.5 percent in FY 2008.

GASOLINE TAX RATE:

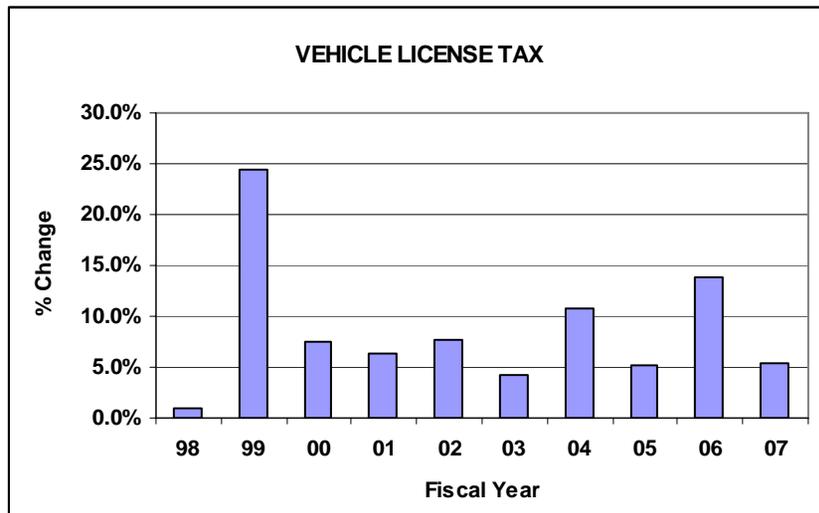
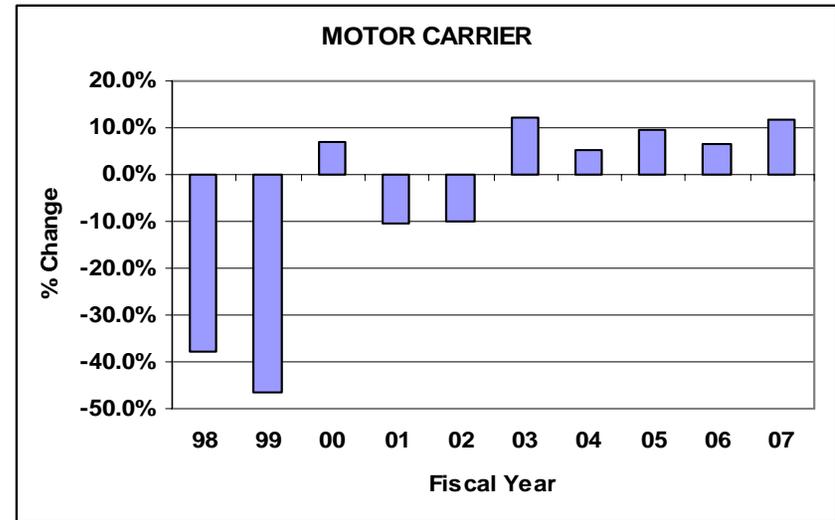
The gasoline tax rate chart on the left shows the state gasoline tax of \$0.18 per gallon. The last gasoline tax rate increase was \$0.01 in FY 91.

USE FUEL TAX RATE

Presently, the state use fuel tax rate is \$0.26. The large increase in FY 1999 includes a \$0.09 per gallon tax increase imposed on use fuel consumed by “use class” vehicles per Laws 1997, Chapter 8. This increase replaced the \$0.08 per gallon surcharge on use fuel from January 1, 1994 through September 30, 1997, which is not reflected in this chart. As of July 1, 2000, the use fuel tax rate was reduced from \$0.27 to \$0.26 per gallon as part of the 1997 legislation.

MOTOR CARRIER FEE:

FY 2007 motor carrier fee collections amounted to \$45.2 million, an increase of 11.7 percent over FY 2006 and 4.9 percent above the estimate. The motor carrier fee revenues and other commercial registration fees (registration section) can be impacted by month-to-month fluctuations in payments received under the International Registration Program (IRP). This may have had some impact on FY 2007 revenues. As reported in the use fuel tax section, consumers demand for goods softened in FY 2007 which should have resulted in weaker motor carrier fee revenues.



VEHICLE LICENSE TAX:

VLT revenue in FY 2007 totaled \$393.5 million, an increase of 5.3 percent over FY 2006 but 1.6 percent below the estimate. All of the growth was due to an additional 213,000 renewal registrations. The biggest surprise was from the New to Arizona vehicle registrations which posted only 277 more vehicles than in FY 2006. New to Arizona vehicles represents vehicles being registered by people moving to Arizona from another state. This is a good proxy for population growth which could signal slower population growth in Arizona.

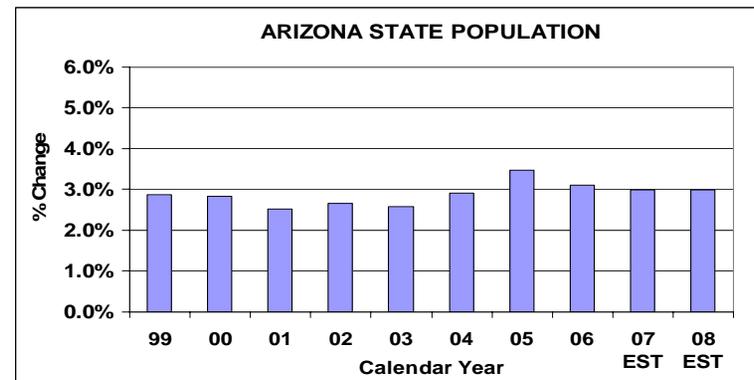
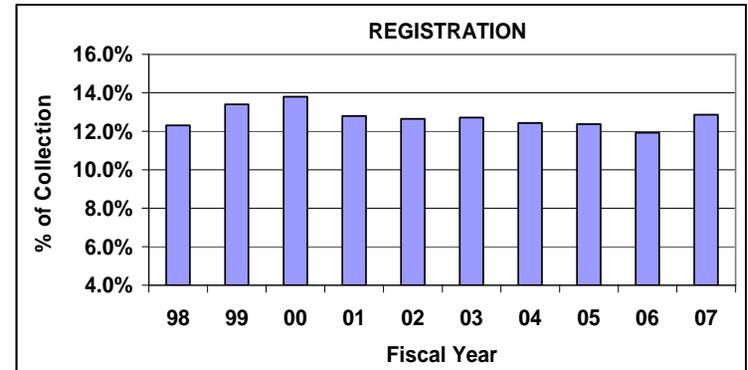
REGISTRATION:

Registration collections in FY 2007 reached \$177.8 million, an increase of 12.0 percent over last year and 7.6 percent above the estimate. Apportioned registration (interstate motor carriers) revenue provided the majority of the growth increasing to \$82.2 million in FY 2007 from \$66.7 million in FY 2006. However, approximately \$3.5 million of the increase was due to timing delays that shifted the revenue from FY 2006 to FY 2007. As noted in the motor carrier fee section, timing issues delay fee payments from other states which could delay revenue posting.

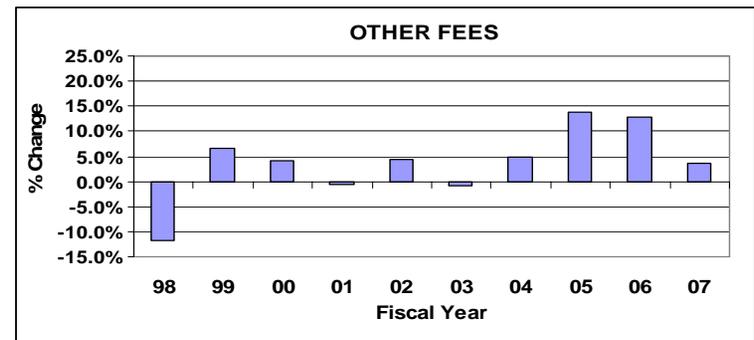
The June 2007 issue of the Arizona Blue Chip Forecast showed Arizona population totaled 6.1 million in CY 2006, an increase of 3.1 percent over CY 2005. Arizona gained approximately 190,000 new residents in CY 2006. The slowing employment has led the Arizona Blue Chip panel consensus to reduce their Arizona population growth estimates slightly to 3.0 percent in both CY 2007 and CY 2008.

OTHER FEES:

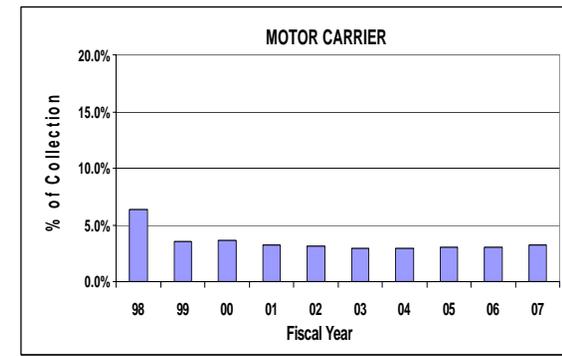
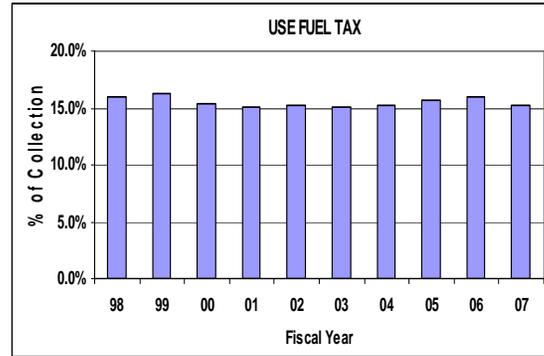
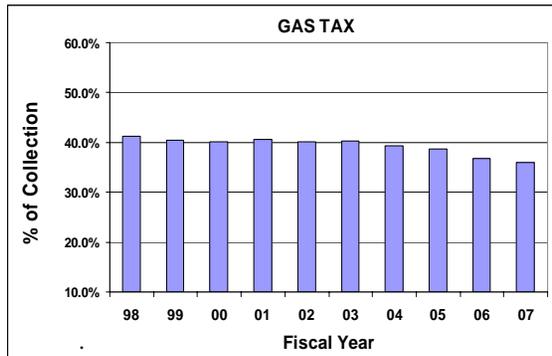
FY 2007 “other fees” collections amounted to \$58.0 million, an increase of 3.7 percent over FY 2006 but 1.6 percent below the estimate. The lower than expected “other fees” revenues was due mainly to the MVD allowing more of its facilities to accept credit cards and adding more third parties to provide registration and title services. Credit card fees paid by MVD totaled \$8.0 million, an increase of 24.8 percent or \$1.6 million above the estimate.



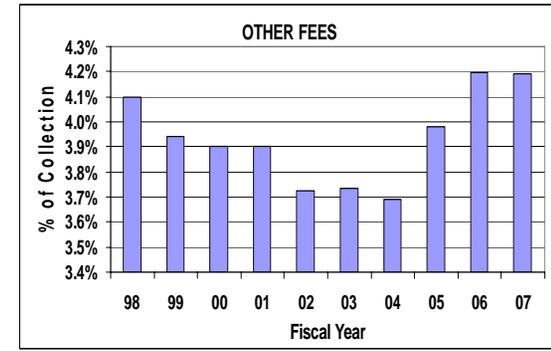
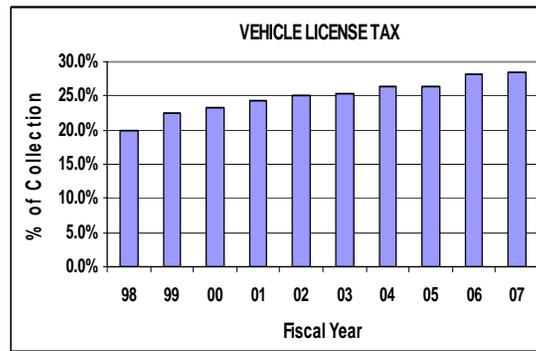
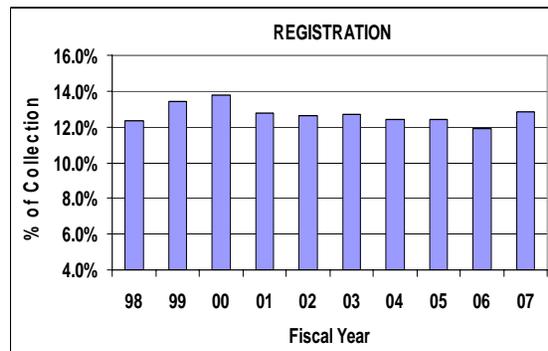
Source: Arizona Blue Chip, June 2007



Revenue Composition Comparison



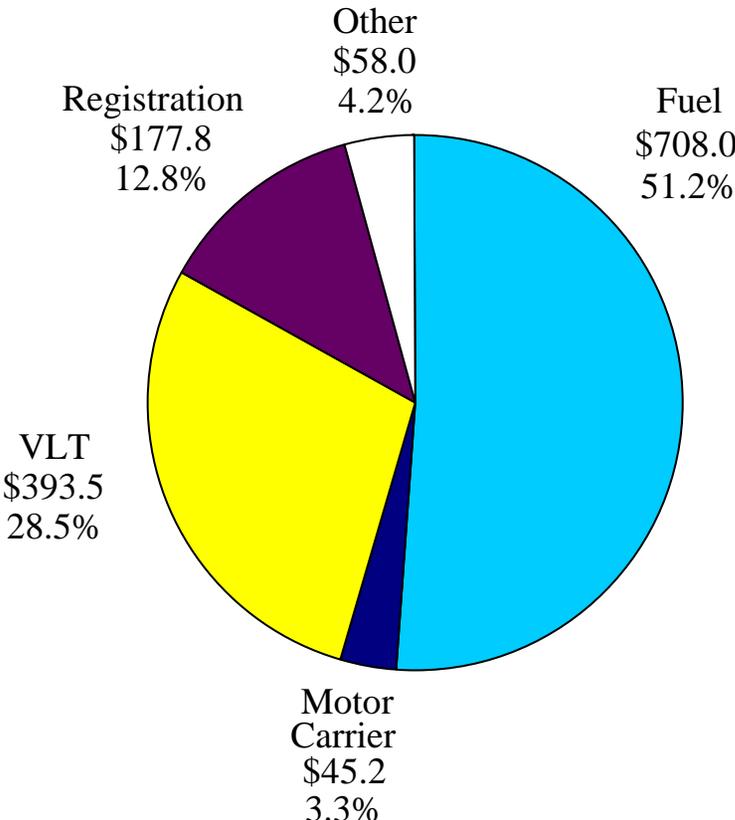
The HURF collections composition has varied over the years due to legislation, fuel efficiency and inflation. The gas tax revenue continues to be the largest contributor to the HURF, but its contribution has decreased from 41.3 percent in FY 1998 to 36.0 percent in FY 2007. The VLT revenue category continues to increase its contribution to the HURF climbing from 19.9 percent in FY 1998 to 28.5 percent in FY 2007. This revenue category benefits from increased population, inflation and higher average fleet value each year as older vehicles are replaced by newer vehicles. The decrease in the motor carrier fee revenue category was the result of 1997 legislation that repealed the weight distance tax and replaced it with higher weight based registration fees on commercial vehicles. The increased contribution from “other fees” since FY 2005 was mainly due to 2004 legislation that allowed MVD to retain a \$12 processing fee with each VLT refund processed in addition to population growth creating demand for driver licenses and vehicle titles.



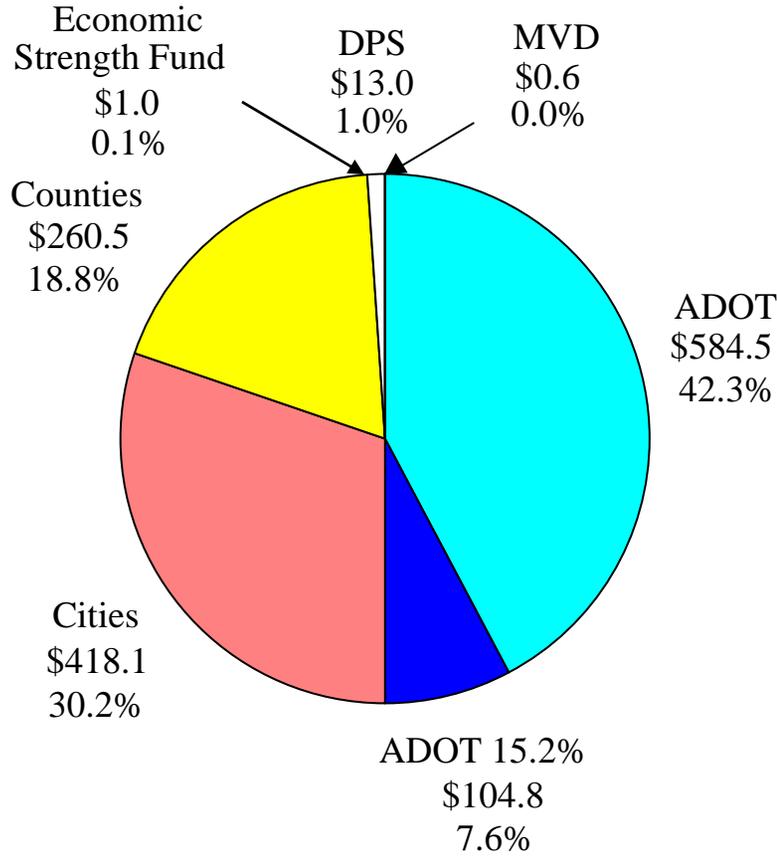
HIGHWAY USER REVENUE FUND SOURCES AND DISTRIBUTION OF FUNDS FY 2007

TOTAL: \$1,382.5 MILLION

SOURCES



DISTRIBUTION



NOTE: ADOT 15.2% represents ADOT's allocation of HURF for MAG and PAG regional projects.

Highway User Revenue Fund

Revenue Comparison Statement

CATEGORY	FY 2006 ACTUAL	FY 2007 ACTUAL	CHANGE	FY 2007 ESTIMATE	CHANGE
GAS TAX	\$489,080,644	\$497,702,087	1.8%	\$501,300,000	-0.7%
USE FUEL TAX	213,460,036	210,281,755	-1.5%	230,600,000	-8.8%
SUBTOTAL	702,540,679	707,983,842	0.8%	731,900,000	-3.3%
MOTOR CARRIER	40,504,406	45,226,185	11.7%	43,100,000	4.9%
VEHICLE LICENSE TAX	373,863,974	393,496,994	5.3%	399,700,000	-1.6%
COUNTY REGISTRATION	78,361,025	81,444,010	3.9%	81,500,000	-0.1%
APPORTIONED	66,736,795	82,166,366	23.1%	69,400,000	18.4%
MISC. REGISTRATION	13,706,945	14,177,884	3.4%	14,300,000	-0.9%
SUBTOTAL	158,804,765	177,788,261	12.0%	165,200,000	7.6%
TITLE FEES	8,762,093	8,676,585	-1.0%	9,200,000	-5.7%
OPERATOR LICENSES	17,458,538	18,203,194	4.3%	18,200,000	0.0%
OVERSIZE PERMITS	6,088,543	7,031,036	15.5%	6,400,000	9.9%
INQUIRY FEES	11,950,129	12,148,552	1.7%	12,500,000	-2.8%
STATION FUEL FEES	2,142,302	3,705,071	72.9%	2,200,000	68.4%
INVESTMENT INTEREST	1,853,619	2,320,828	25.2%	2,500,000	-7.2%
SPECIAL PLATES	6,957,155	7,644,002	9.9%	7,500,000	1.9%
CREDIT CARD FEES	(5,550,847)	(7,986,949)	43.9%	(6,400,000)	24.8%
MISCELLANEOUS FEES	6,249,342	6,236,316	-0.2%	6,800,000	-8.3%
SUBTOTAL	55,910,873	57,978,634	3.7%	58,900,000	-1.6%
TOTAL	\$1,331,624,697	\$1,382,473,916	3.8%	\$1,398,800,000	-1.2%

Details may not add to the total due to individual rounding.

Highway User Revenue Fund

Revenue Collections By Category

(Dollars In Thousands)

FY 1998- 2007

Fiscal Year	Vehicle						Total /1	Percent Change
	Gas Tax	Use Fuel Tax	Motor Carrier	License Tax	Registration	Other		
1998	\$366,377	\$142,167	\$63,846	\$176,950	\$101,722	\$36,425	\$887,487	
1999	397,463	160,312	34,150	220,126	131,952	38,775	982,779	10.7%
2000	409,137	156,599	36,563	236,547	140,345	40,409	1,019,599	3.7%
2001	418,400	155,859	32,678	251,613	132,269	40,147	1,030,965	1.1%
2002	434,818	161,507	29,347	270,641	138,210	41,873	1,076,395	4.4%
2003	446,891	166,744	32,856	281,947	141,328	41,490	1,111,256	3.2%
2004	463,531	179,002	34,617	312,262	146,638	43,510	1,179,561	6.1%
2005	481,284	194,368	37,980	328,232	154,122	49,567	1,245,553	5.6%
2006	489,081	213,460	40,504	373,864	158,805	55,911	1,331,625	6.9%
2007	497,702	210,282	45,226	393,497	177,788	57,979	1,382,474	3.8%
Total	\$4,404,684	\$1,740,300	\$387,768	\$2,845,679	\$1,423,180	\$446,085	\$11,247,694	

1/ Details may not add to the total due to individual rounding.

Highway User Revenue Fund

Revenue Distributions

(Dollars In Thousands)

FY 1998-2007

FISCAL YEAR	ARIZONA HIGHWAY FUND	MAG CONTROLLED ACCESS	PAG CONTROLLED ACCESS	CITIES AND TOWNS	COUNTIES	DEPT. OF PUBLIC SAFETY / 1	ECONOMIC	OTHER MISCELLANEOUS APPROPRIATIONS	TOTAL / 9
							STRENGTH PROJECT FUND / 2		
1998	\$373,206	\$50,171	\$16,724	\$265,803	\$165,583	\$15,000	\$1,000		\$887,487
1999	413,371	55,571	18,524	294,410	183,403	12,500	1,000	\$4,000 /3	982,779
2000	430,668	57,896	19,299	306,729	191,077	12,500	1,000	430 /4	1,019,599
2001	433,248	58,243	19,415	308,567	192,222	12,500	1,000	5,770 /4	1,030,965
2002	438,230	58,913	19,638	312,115	194,433	52,066	1,000		1,076,395
2003	451,827	60,741	20,247	321,799	200,465	54,528	1,000	648 /5	1,111,256
2004	483,688	65,024	21,675	344,491	214,601	48,698	1,000	383 /5	1,179,561
2005	410,362	55,167	18,389	363,535	226,464	52,216	1,000	118,420 /5 /6 /7	1,245,553
2006	539,865	72,576	24,192	386,128	240,538	66,693	1,000	633 /5 /8	1,331,625
2007	584,531	78,581	26,194	418,114	260,465	12,983	1,000	607 /5	1,382,474
Total	\$4,558,996	\$612,883	\$204,296	\$3,321,691	\$2,069,252	\$339,684	\$10,000	\$130,892	\$11,247,693

NOTES:

- 1/ The legislature has authorized the distribution of Arizona Highway User Revenue Fund (HURF) monies to the Arizona Department of Public Safety (DPS) for highway patrol expenditures. Per Laws 2005, Chapter 306 (SB 1119), the DPS Parity Compensation Fund receives 1.51 percent of the state highway fund share of the HURF VLT beginning in FY 2006.
- 2/ The Economic Strength Project Fund was statutorily established on May 17, 1989. Money in the fund is to be used for highway projects that provide economic benefits to the State or local jurisdiction.
- 3/ Appropriation to the Department of Commerce for Williams Gateway Authority roadway projects.
- 4/ Appropriation for construction of the Prescott Regional Transportation Center.
- 5/ Appropriation for the MVD vehicle registration enforcement program (FY03 \$648,000, FY04-06 \$383,300, FY07 \$607,300).
- 6/ Appropriation to MVD to implement special 30-day nonresidents permit (\$37,000).
- 7/ Laws 2004, Chapter 282 (SB 1413) transfers \$118 million of the state highway fund share of HURF VLT to the state general fund in FY 2005.
- 8/ Laws 2005, Chapter 313 (SB 1254) appropriates \$250,000 from the HURF to the ADOT (MVD) for 3rd Party program..
- 9/ Details may not add to the total due to individual rounding.

Highway User Revenue Fund

Distributions to Cities, Towns and Counties

FY 2007

COUNTY	CITY	COUNTY	CITY	COUNTY	CITY	COUNTY	CITY	COUNTY	CITY	COUNTY	CITY		
Apache		\$7,794,683.82		La Paz		\$4,393,822.62		Pima		\$44,565,616.91			
	Eagar		\$943,405.90		Parker		\$1,259,193.23		Marana		\$2,067,894.54		
	Springerville		\$438,813.94		Quartzsite		\$1,382,437.47		Oro Valley		\$3,031,222.93		
	St. Johns		\$823,558.54						South Tucson		\$432,070.53		
				Maricopa		\$107,643,909.68			Tucson		\$49,548,011.74		
Cochise		\$9,509,668.69			Apache Junction		\$20,380.55		Sahuarita		\$1,088,363.36		
	Benson		\$427,245.07		Avondale		\$4,948,540.76						
	Bisbee		\$590,331.50		Buckeye		\$1,811,362.30		Pinal		\$17,140,419.24		
	Douglas		\$1,546,602.40		Carefree		\$263,170.26			Apache Junction		\$3,264,430.93	
	Huachuca City		\$165,201.28		Cave Creek		\$340,814.46			Casa Grande		\$3,130,775.84	
	Sierra Vista		\$3,926,406.15		Chandler		\$16,490,128.99			Coolidge		\$789,932.94	
	Tombstone		\$144,529.65		El Mirage		\$2,285,979.54			Eloy		\$1,075,048.88	
	Willcox		\$349,500.63		Fountain Hills		\$1,750,050.84			Florence		\$1,980,415.64	
					Gila Bend		\$143,015.34			Kearny		\$216,982.69	
Coconino		\$10,865,905.07			Gilbert		\$12,355,279.94			Mammoth		\$169,869.32	
	Flagstaff		\$7,855,427.46		Glendale		\$17,323,871.92			Superior		\$314,750.56	
	Fredonia		\$142,728.55		Goodyear		\$3,296,068.68			Queen Creek		\$47,253.85	
	Page		\$911,749.63		Guadalupe		\$396,139.67			Winkelman		\$225.84	
	Williams		\$404,195.55		Litchfield Park		\$323,558.69			Maricopa		\$1,527,763.59	
	Sedona		\$398,178.27		Mesa		\$39,538,563.64						
Gila		\$4,425,291.19			Paradise Valley		\$990,547.59		Santa Cruz		\$3,621,585.36		
	Globe		\$882,150.79		Peoria		\$9,866,898.56			Nogales		\$2,650,850.27	
	Hayden		\$104,365.65		Phoenix		\$130,223,019.16			Patagonia		\$111,865.00	
	Miami		\$229,750.21		Queen Creek		\$1,134,855.85						
	Payson		\$1,815,626.90		Scottsdale		\$16,777,781.24			Yavapai		\$12,653,854.90	
	Winkelman		\$51,636.71		Surprise		\$6,293,129.44				Camp Verde		\$969,876.69
	Star Valley		\$233,290.62		Tempe		\$11,854,088.39				Chino Valley		\$1,109,420.09
Graham		\$2,820,491.61			Tolleson		\$465,198.80				Clarkdale		\$333,378.76
	Pima		\$191,999.04		Wickenburg		\$433,667.75				Cottonwood		\$979,658.78
	Safford		\$861,994.87		Youngtown		\$440,155.87				Jerome		\$30,296.37
	Thatcher		\$419,106.61								Prescott		\$3,680,278.86
Greenlee		\$984,771.30		Mohave		\$12,622,438.56					Prescott Valley		\$3,022,836.59
	Clifton		\$271,839.88			Bullhead City		\$3,727,774.74			Sedona		\$708,121.75
	Duncan		\$85,823.48			Colorado City		\$399,816.87			Peoria		\$3,561.37
						Kingman		\$2,539,428.46			Dewey/ Humboldt		\$364,074.80
						Lake Havasu City		\$5,246,029.58					
				Navajo		\$9,278,325.55			Yuma		\$12,143,872.56		
						Pinetop/ Lakeside		\$610,702.68			Somerton		\$893,648.59
						Holbrook		\$795,308.80			San Luis		\$2,098,587.38
						Show Low		\$1,447,672.65			Wellton		\$181,521.46
						Snowflake		\$723,694.40			Yuma		\$8,137,895.27
						Taylor		\$600,069.69					
						Winslow		\$1,439,576.50					
FISCAL YEAR 2006-2007 TOTALS:													
CITIES:			\$418,114,317.79										
COUNTIES:			\$260,464,657.06										

Highway User Revenue Fund

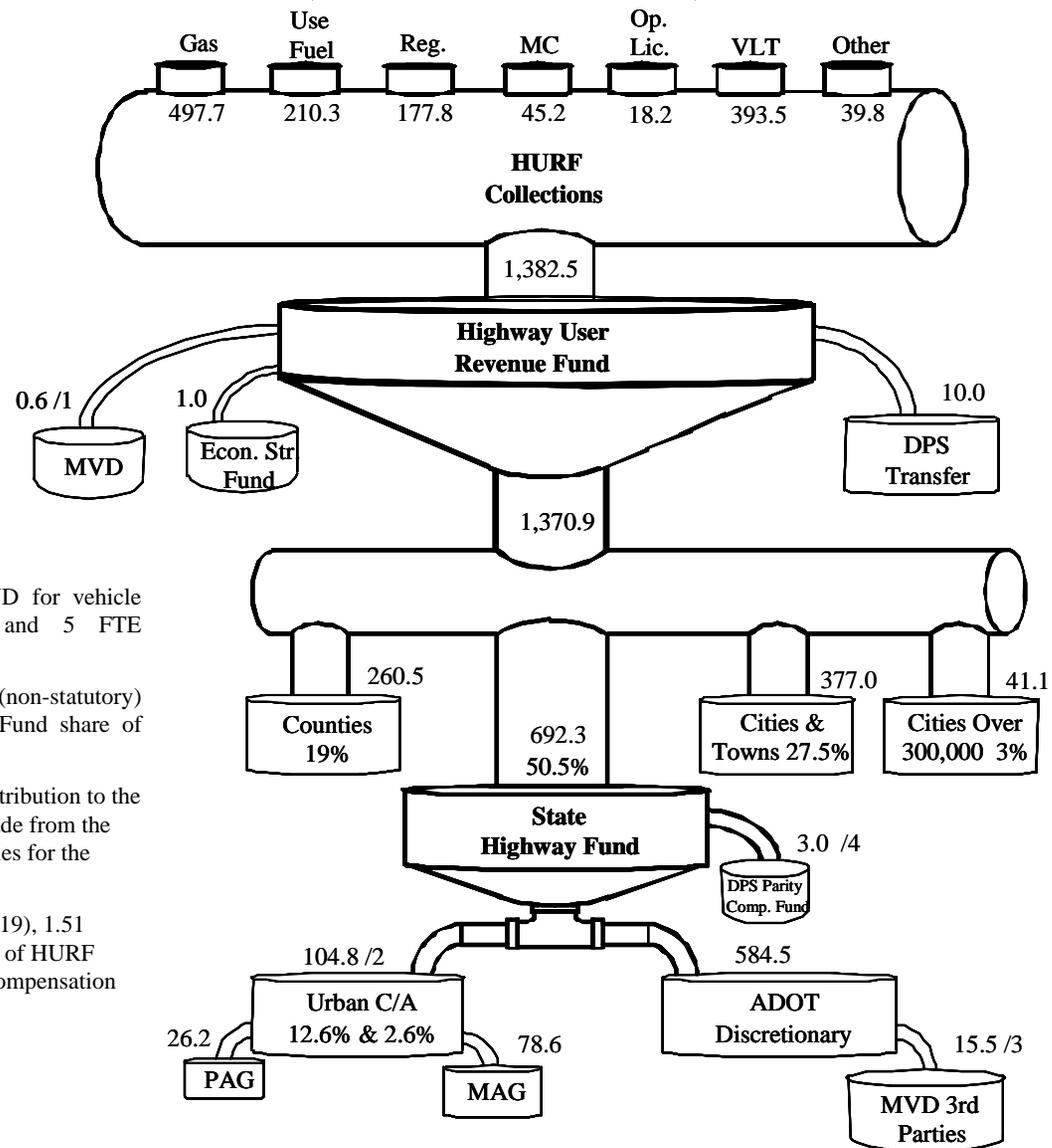
Distribution Overview

<p>Revenues from:</p> <p>\$.18 Gas Tax \$.26 Use Fuel Tax (7/00) Vehicle Registration Motor Carrier Fee 44.99% of VLT (12/00) Other</p>	<p>Distribution breakdown:</p> <p>50.5% to State Highway Fund</p> <p>27.5% to Cities & Towns</p> <p>3% to Cities over 300,000</p> <p>19% to Counties</p>	<p>Distribution formulas:</p> <p>7.67% to Maricopa and Pima Counties for Controlled Access with a 75% and 25% split respectively. (Statutory 12.6% & Special 2.6% money) 4 2.83% to ADOT Discretionary.</p> <p>One half distributed on basis of incorporated population and one half on the basis of county origin of gasoline sales and city or town population within each county.</p> <p>Distributed to Phoenix, Tucson and Mesa based on population.</p> <p>Distributed based on a portion of gasoline distribution and diesel fuel consumption and on a portion of unincorporated population. The split is as follows: 85/15 in FY 1997, 80/20 in FY 1998, 76/24 in FY 1999, and 72/28 in FY 2000 and thereafter)</p>
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Highway User Revenue Fund

FY 2007 Actual Revenue Distribution Flow

(Dollars in Millions)



NOTES:

- /1. Appropriation of 607,300 to MVD for vehicle registration enforcement program and 5 FTE positions for 3rd Party program.
- /2. The 12.6% (statutory) and 2.6% (non-statutory) allocations from the State Highway Fund share of HURF distributions.
- /3. With the elimination of the VLT distribution to the state highway fund, a distribution is made from the state highway fund to MVD Third Parties for the collection of VLT.
- /4. Per Laws 2005, Chapter 306 (SB 1119), 1.51 percent of the state highway fund share of HURF VLT is distributed to the DPS Parity Compensation Fund.

REVENUE CATEGORY DEFINITIONS

GASOLINE TAX	A per-gallon tax imposed on gasoline used by vehicles on Arizona highways; presently this tax is \$0.18 per gallon.
USE FUEL TAX	Includes all gases and liquids used to propel motor vehicles on the highways in this state except for motor fuel (gasoline). Use fuel consists primarily of diesel fuel. Diesel fuel tax was \$0.27 per gallon, but dropped to \$0.26 per gallon on July 1, 2000 for “use class” vehicles. “Non-use class” vehicles continue to pay \$0.18 per gallon. Jet fuel is exempt from fuel and use fuel taxes.
MOTOR CARRIER FEE	A fee imposed on certain commercial carriers based on vehicle weight. Category also includes: Motor Carrier License Tax, Motor Carrier Tax Penalties, late fees and interest, and Motor Carrier Permits Tax, and application fees.
VEHICLE LICENSE TAX	An annual license tax imposed on registered vehicles in lieu of property taxes.
REGISTRATION FEES	<p>Is made up of three distinct components:</p> <p>County Registration - non-commercial and commercial vehicle registration, and commercial weight fees.</p> <p>Apportioned Registration - commercial registration fees allocated according to traveled in Arizona.</p> <p>Miscellaneous Registration - Non-resident Permits, Unassigned Registration, Prorate Stickers, and Registration Penalties.</p>
OTHER FEES	Includes Title Fees, Operator Licenses, Oversize/Overweight Permits and Highway Fines, Inquiry Fees, Use Fuel Permits and Fuel Tax Penalties, Investment Interest, Special Plates, and Other Miscellaneous Fees, less Credit Card Fees.